



Distr.
GENERAL

IDB.14/6/Add.1
24 May 1995

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

Industrial Development Board

Fourteenth session

Vienna, 26-30 June 1995

Item 7 (g) of the provisional agenda

REPORT OF THE PROGRAMME AND BUDGET COMMITTEE: FINANCIAL SITUATION OF UNIDO

Report on the 6 per cent figure set as a regular budget ceiling
for technical cooperation activities

Addendum

Report by the Director-General

Summary

Provides information on the implications of possibly changing the present percentage of regular budget resources for technical cooperation activities.

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Introduction

1. In compliance with Industrial Development Board decision IDB.13/Dec.14, paragraph (f), the Director-General submitted to the Programme and Budget Committee at its eleventh session a report on the 6 per cent figure set as a regular budget ceiling for technical cooperation activities IDB.14/6-PBC.11/9. The report provided information on the origin and legal status of the 6 per cent figure, on practices in other organizations, on programming criteria and approval procedures for the UNIDO Regular Programme of Technical Cooperation, as well as its role and impact, and suggested several options with due reference to related implications.

2. At its eleventh session, the Programme and Budget Committee took note of the information contained in document IDB.14/6 and, in conclusion 95/3, requested the Director-General to submit to the Board at its fourteenth session an additional report on the implications of possibly changing the present percentage of regular budget resources for technical cooperation activities, keeping in mind paragraph 33 of document IDB.14/6. That paragraph states, *inter alia*, that in a continued zero real growth scenario, any increase in the percentage share of the Regular Programme could be realized only by corresponding reductions in other specific programmes.

I. REQUIREMENTS AND TIME-FRAME FOR LEGAL PROCEDURES

3. As explained in document IDB.14/6 (para. 6), the provision for the regular budget ceiling for technical cooperation activities is contained as an integral part of the UNIDO Constitution in its Annex II. Any change would thus require an amendment to the Constitution. For an amendment to that Annex to come into force, as stipulated in Article 23.3 of the Constitution, as well as in the rules of procedure of the Board (rule 51, paragraph 1) and the General Conference (rule 92, paragraph 1 (b)) the following procedures would have to be followed:

(a) The amendment should be recommended by the Board to the General Conference by a two-thirds majority of all members of the Board (i.e. 36 of the 53 members of the Board);*

* The loss of voting rights by those Members that are in arrears in the payment of their financial contributions to UNIDO as stipulated in Article 5.2 of the Constitution does not affect the number required for a two-thirds majority, which is based on membership.

(b) It should be approved by the General Conference by a two-thirds majority of all Members of UNIDO (i.e. 112 of the present 167 Members);*

(c) Should the General Conference approve the amendment, three-fourths of the Member States (i.e. 126 of the present 167) would have to deposit instruments of ratification, acceptance or approval of the amendment with the Depositary.

4. Bearing in mind the above explanations, and difficulty of predicting the delays that may occur in obtaining the instruments of ratification, acceptance or approval from three-fourths of the Member States, any amendment that might be recommended by the Board in June 1995 and approved by the General Conference in December 1995 would be likely to come into effect at the earliest for the programme and budgets for the 1998-1999 biennium.

II. BUDGETARY IMPLICATIONS

5. The percentage for regular budget-financed technical cooperation activities is calculated from the total net regular budget, which is the basis for the assessments paid by Member States. In real terms and at 1995 rates, the total net regular budget proposed for the 1996-1997 biennium amounts to \$199,487,300, of which 6 per cent amounts to \$11,969,300. An increase for regular budget-financed technical cooperation activities from 6 per cent to, for instance, 7 per cent would require an additional amount of \$1,994,873, which would need to be redeployed from other programmes.

6. In order to illustrate the substantive implications of such redeployments, Member States may wish to note that \$1,994,873 is the equivalent of, *inter alia*, 21 per cent of the total biennial regular budget and operational budget allocations for Major Programme 400 (Mobilization and Management of Financial Resources), or approximately the total regular budget and operational budget resources of any one of the following Programmes: 220 (Strategic Planning Office), 340 (Arab Countries Programme) or 370 (Latin America and the Caribbean Programme).

7. An increase of the percentage from 6 to 10 per cent, if applied to the proposed 1996-1997 programme and budgets, would require a redeployment of \$7,979,500. This amount represents two thirds of Programme 380 (Field Representation) or one third of Major Programme 700 (Industrial Sectors and Environment) or nearly twice the resources allocated to Programme 920 (Industrial Development Decade for Africa).

8. Bearing in mind the budgetary restrictions in view of the continued zero real growth of the UNIDO regular budget, as well as the substantive reductions over the recent bienniums due to the loss of operational budget income, it is evident that any redeployment of funds to Programme 910 (Regular Programme of Technical Cooperation) could only be implemented by significantly reducing or even eliminating other Programmes. Increased resource allocations to programmes accorded highest priority by Member States, such as field representation, would become even more difficult to accommodate.

9. Experience over recent bienniums also shows that the allotment for the Regular Programme of Technical Cooperation has normally been fully implemented while some other Programmes and Subprogrammes, due to cash shortages arising from non-payment of assessed contributions, often suffered from vacancy factors or reduced non-staff allocations, leading to implementation below budgeted levels.

III. TECHNICAL COOPERATION AND OTHER SUBSTANTIVE ACTIVITIES FINANCED FROM THE REGULAR BUDGET— DEFINITION AND RELEVANCE

10. Chapter I of document IDB.14/6 explains, *inter alia*, the historical background of the provisions for regular budget-financed technical cooperation activities. It must be noted that none of the relevant resolutions and decisions contain a clear definition of technical cooperation. Such definition is, however, available from the World Bank Operational Manual (July 1992), which states: "Technical assistance is the transfer, adaptation, mobilization and utilization of services, skills, knowledge, technology and engineering to (a) carry out policy studies and advice; (b) support project preparation and implementation; and (c) enhance a developing country's human, economic, technical, analytical, managerial and institutional capabilities on a sustainable basis." In the same manual, technical cooperation is classified by three types of outputs: (a) policy support; (b) project preparation and implementation support; and (c) institutional development (capacity-building).

11. The basic unit of technical cooperation programmes (including the regular budget-financed Regular Programme) is usually a project. The United Nations Development Programme defines a project as a set of planned interrelated activities in a developing country aimed at achieving defined objectives by producing specified results, with specified resources, within a specified period of time.

12. The programmes and budgets of UNIDO as approved by its policy-making organs thus contain to a considerable extent substantive programmes and activities which by definition overlap with, or prepare the ground for, those technical cooperation activities which are financed from extrabudgetary resources. Programme 920 (Industrial Development Decade for Africa) is a case in point, as are the special programmes for the other developing regions, all of whose activities are only partly financed from the 6 per cent set aside for technical cooperation activities. Other regular budget and operational budget staff and non-staff resources also support those activities. Equally, Programme 930 (Interregional Advisers) provides, *inter alia*, back-up technical support to the technical cooperation activities of the developing countries.

13. The primary objectives of UNIDO—the promotion and acceleration of industrial development in the developing countries and of cooperation on global, regional, national and sectoral levels—are stipulated in Article 1 of the UNIDO Constitution. It is evident that the fulfilment of these objectives is linked with what is generally known as technical cooperation activities under the main functions of the Organization as defined in Article 2 of the Constitution.

IV. ACTION REQUIRED OF THE BOARD

14. The Board may wish to take note of the information contained in the present report and recommend appropriate action to the General Conference.